

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 PM-05 DODE-00
H-01 DOE-15 SOE-02 NSC-05 SS-15 STR-07 CEA-01
HA-05 L-03 /120 W

-----043874 242318Z /73

P 242133Z APR 78

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC PRIORITY 8994

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E.O. 11652: N/A

TAGS: ETRD, BEXP, CI

SUBJ: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY

REF: STATE 095673; SANTIAGO 2087; SANTIAGO 2088

1. INTRODUCTION. SEVERAL U.S. POLICIES THAT HAVE HAD THE PROBABLE EFFECT OF REDUCING U.S. EXPORTS TO CHILE APPEAR TO US TO HAVE BROAD SIGNIFICANCE IN FRAMING A NATIONAL EXPORT POLICY. OF THESE, ONE, THE TAXATION OF EXPATRIATE INCOME OR ALLOWANCES, HAS NO CONNECTION WITH BILATERAL PROBLEMS ARISING BETWEEN THE UNITED STATES AND CHILE. TWO OTHERS, LEGISLATIVE RESTRICTIONS ON MILITARY EQUIPMENT SALES, AND AN EXECUTIVE BRANCH RESTRICTION ON EXPORT-IMPORT BANK FINANCING, RELATE BACK DIRECTLY TO U.S. HUMAN RIGHTS POLICIES. TREATMENT OF AN APPLICATION FOR A WHEAT CREDIT TO THE CHILEAN PRIVATE SECTOR (SANTIAGO 2087 AND 2088) EXEMPLIFIES THE BALANCING OF CONSIDERATION - HUMAN RIGHTS VERSUS EXPORT PROMOTION.

2. MILITARY SALES. SINCE JULY 1, 1976, BY ACT OF CONGRESS, NO PRODUCTS ON THE MUNITIONS LIST MAY BE EXPORTED FROM THE U.S. TO CHILE. THIS HAS RESULTED IN A LOSS OF
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SALES NOT ONLY OF MILITARY EQUIPMENT TO THE CHILEAN ARMED YQRCS, MOST OF WHICH MIGHT HAVE BEEN DISAPPROVED ON POLITICAL GROUNDS IN ANY EVENT, BUT ALSO SALES FOR PURELY COMMERCIAL USE IN CHILE. A SWEEPING CONGRESSIONAL EMBARGO OF THIS TYPE THAT ALLOWS NO CASE BY CASE DISCRETION PENALIZES U.S. EXPORTERS OF SUCH PRODUCTS.

3. EXPORT-IMPORT BANK LOANS. WITHOUT EXIM-BANK'S DIRECT LENDING PARTICIPATION ON LARGE EXPORT OPPORTUNITIES IN CHILE, U.S. EXPORTERS ARE FINDING IT IMPOSSIBLE TO COMPETE FOR SOME SALES BECAUSE OF FINANCING TERMS ALONE. TWO RECENT EXAMPLES. A LARGE U.S. MULTINATIONAL IS LIKELY TO SOURCE ITS BID FOR A \$ 25 MILLION ELECTRICITY GENERATING PLANT FROM THIRD COUNTRIES, SUCH AS CANADA AND BRAZIL, WHERE THE AVAILABILITY OF GOVERNMENT EXPORT CREDITS GIVES THEM THEIR ONLY CHANCE TO COME IN WITH A COMPETITIVE FINANCING PACKAGE. SECONDLY, A U.S. MANUFACTURER OF LARGE DIAMETER PIPE, THAT HAS BEEN THE SUCCESSFUL BIDDER ON RECENT INTERNATIONAL PROJECTS FINANCED BY IFI'S, IS A LIKELY NON-BIDDER ON A CHILEAN TENDER FOR OVER US\$ 20 MILLION WORTH OF PIPE FOR A WATER SYSTEM PROJECT. THE COMPANY'S CURRENT READING IS THAT THE FRENCH AND JAPANESE WILL BEAT THEM BADLY, NOT ON THE PRICE OF THE PIPE ITSELF, BUT ON THE FINANCING TERMS THAT WILL BE OFFERED, AND THUS ON THE OVERALL PRICE.

4. U.S. TAXES. A U.S. REPRESENTATIVE OF A MAJOR ENGINEERING CONSULTANT FIRM REPORTS THAT U.S. TAX TREATMENT OF INDIVIDUAL INCOME EARNED OVERSEAS IS PROVING A NIGHTMARE FOR HIS FIRM'S CHANCES OF WINNING ENGINEERING PRE-FEASIBILITY STUDY CONTRACTS IN CHILE. COSTS ON THESE PROJECTS ARE ALMOST ENTIRELY THE SALARIES AND EXPENSES OF THE PERSONNEL ASSIGNED TO THEM. UNDER THE 1976 TAX LAW CHANGES, THESE LIMITED OFFICIAL USE

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"EARNINGS" ARE BEING TAXED AT A HIGHER RATE AND WITH LESS ALLOWABLE FOREIGN TAX CREDITS. CURRENTLY, FOR EXAMPLE, THE ANNUAL CLIENT COST FOR A U.S. ENGINEER EARNING US\$ 45,000 COMES TO \$ 120,000 WHEN HE IS ASSIGNED TO CHILE. ACCORDING TO THIS SOURCE, THE ADDITIONAL U.S. TAX BURDEN HAS BECOME THE FINAL STRAW IN PRICING U.S. CONSULTING ENGINEERS OUT OF THE RUNNING FOR THE "LABOR-INTENSIVE" PRE-FEASIBILITY CONTRACTS. THE MARGINAL TAX INCREMENT TO THE USG FROM HIGHER INDIVIDUAL TAXABLE INCOME HAS TO BE COMPARED TO THE MUCH LARGER POTENTIAL CORPORATE TAX PAYMENTS ACCRUING TO THE USG FROM PROFITS FROM THE SUCCESSFUL SALE OF U. S. ENGINEERING SERVICES ABROAD. IN ADDITION, WINNING THESE PRE-FEASIBILITY STUDIES IS ALMOST A PREREQUISITE FOR SELECTION ON THE LARGER-VALUE DESIGN/ENGINEERING PHASE OF PROJECTS. THE POTENTIAL LOSS FOR U.S. EXPORTS OFTEN BECOMES MAGNIFIED WHEN SPECIFICATIONS FOR EQUIPMENT, USUALLY THE BIG-MONEY COMPONENT OF A PROJECT, ARE WRITTEN BY THE FOREIGN COMPETITION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, POLICIES, INTERAGENCY COMMITTEES, EXPORT CREDIT GUARANTEES, TAXES, EARNINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA03070
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780175-0481
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780424/aaaaatst.tel
Line Count: 113
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c4c5c9a8-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 95673, 78 SANTIAGO 2087, 78 SANTIAGO 2088
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2869447
Secure: OPEN
Status: NATIVE
Subject: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY
TAGS: ETRD, BEXP, CI, US
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c4c5c9a8-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014